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CITY OF DORRIS, CALIFORNIA

Financial Statements

June 30, 2008

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City of Dorris, California

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Dorris
Dorris, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Dorris, California, as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Dorris, California, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated June 28, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and non-Profit Organizations, and are not a required part of the basic financial statements of City of Dorris, California. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pavlik and Chitwood, LLP
Certified Public Accountants
June 28, 2010

City of Dorris, California**Statement of Net Assets**

June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 1,179,160	\$ 100,984	\$ 1,280,144
Receivables (net):			
Accounts	17,940	8,912	26,852
Taxes	29,504		29,504
Loans	4,751,111		4,751,111
Total current assets	5,977,715	109,896	6,087,611
Noncurrent Assets:			
Capital assets:			
Land, buildings and equipment	4,141,189	1,124,273	5,265,462
Accumulated depreciation	(810,202)	(918,419)	(1,728,621)
Total noncurrent assets	3,330,987	205,854	3,536,841
Total assets	9,308,702	315,750	9,624,452
LIABILITIES			
Current liabilities:			
Accounts payable	146,264	5,118	151,382
Payroll payable	2,961		2,961
Accrued vacation pay payable	4,550		4,550
Total current liabilities	153,775	5,118	158,893
Noncurrent liabilities:	-	-	-
Total liabilities	153,775	5,118	158,893
NET ASSETS			
Investment in capital assets, net of related debt	3,330,987	205,854	3,536,841
Unrestricted	5,823,940	104,778	5,928,718
Total net assets	\$ 9,154,927	\$ 310,632	\$ 9,465,559

The accompanying notes are an integral part of the financial statements.

City of Dorris, California

Statement of Activities

For the Year Ended June 30, 2008

	Program Revenues			Net (Expenses, Revenues and Changes in Net Assets)		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs	Expenses					
Primary Government:						
Governmental activities:						
General government	\$ 70,905	\$ 31,229		\$ (39,676)	\$	\$ (39,676)
Fire	42,651			(42,651)		(42,651)
Police	187,390	\$ 100,818		(86,572)		(86,572)
Planning and development	381,747	796,800		415,053		415,053
Parks recreation & culture	29,028		\$ 70,964	41,936		41,936
Public works mechanical maint.	45,939	5,000		(40,939)		(40,939)
Streets & sidewalks	149,264	41,823	304,359	196,918		196,918
Total governmental activities	906,924	944,441	375,323	444,069	-	444,069
Business type activities:						
Water	200,026	183,931			\$ (16,095)	(16,095)
Sewer	62,029	66,604			4,575	4,575
Total business type activities	262,055	-	-	-	(11,520)	(11,520)
Total primary government	\$ 1,168,979	\$ 944,441	\$ 375,323	444,069	(11,520)	432,549
General revenues:						
Property taxes				82,366		82,366
Sales taxes				26,918		26,918
Transient lodging taxes				6,377		6,377
Franchise taxes				8,273		8,273
Licenses and permits				13,902		13,902
Fines and forfeitures				4,465		4,465
Unrestricted investment earnings				9,984	603	10,587
Other				171,430		171,430
Total general revenues				323,715	603	324,318
Change in net assets				767,784	(10,917)	756,867
Net assets - beginning of year				8,387,143	321,549	8,708,692
Net assets - end of year				\$ 9,154,927	\$ 310,632	\$ 9,465,559

The accompanying notes are an integral part of the financial statements.

City of Dorris, California
 Balance Sheet
 Governmental Funds
 June 30, 2008

	Major Funds					
	General	Law Enforcement Services	Economic & Community Development Block Grant	Street Enhancement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	\$496,100	\$ 28,460	\$ 273,993		\$ 380,607	\$ 1,179,160
Receivables:						
Taxes	3,855				25,649	29,504
Fees, net	17,940					17,940
Loans			4,751,111			4,751,111
Due from law enforcement					4,068	4,068
TOTAL ASSETS	\$517,895	\$ 28,460	\$ 5,025,104	\$ -	\$ 410,324	\$ 5,981,783
LIABILITIES and FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 47,573	\$ 25,000	\$ 18,369		\$ 55,322	\$ 146,264
Payroll liabilities	2,961					2,961
Accrued vacation	4,550					4,550
Deferred revenue - loans			4,751,111			4,751,111
Due other governmental funds		4,068				4,068
TOTAL LIABILITIES	55,084	29,068	4,769,480	-	55,322	4,908,954
FUND BALANCES:						
Reserved:						
Library					104,170	104,170
Unreserved:						
Designated for:						
Police		(608)				(608)
Road maintenance					222,933	222,933
Community development			255,624		2,374	257,998
Disaster reimbursement					25,525	25,525
Undesignated reported in:						
General fund	462,811					462,811
TOTAL FUND BALANCES	462,811	(608)	255,624	-	355,002	1,072,829
TOTAL LIABILITIES and FUND BALANCES	\$517,895	\$ 28,460	\$ 5,025,104	\$ -	\$ 410,324	\$ 5,981,783

The accompanying notes are an integral part of the financial statements.

City of Dorris, California

Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Assets
Governmental Funds
June 30, 2008

Total governmental fund Balances (page 4)	\$ 1,072,829
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	3,330,987
In the statement of net assets, the block grant loans outstanding are recorded as an asset receivable, whereas they are not on the governmental funds balance sheet.	<u>4,751,111</u>
Net assets of governmental activities (page2)	<u>\$ 9,154,927</u>

The accompanying notes are an integral part of the financial statements.

City of Dorris, California

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2008

	Major Funds					
	General	Law Enforcement Services	Economic & Community Development Block Grant	Street Enhancement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 82,366					\$ 82,366
Sales taxes	26,918					26,918
Transient lodging taxes	6,377					6,377
Franchise fees	8,273					8,273
Fuel taxes					\$ 41,823	41,823
Licenses and permits	13,902					13,902
Charges for services	31,229					31,229
Fines and forfeitures	4,465					4,465
Intergovernmental	77,735					77,735
Grants and donations	5,000	\$ 100,818	\$ 796,800	\$ 304,359	70,964	1,277,941
Interest income on bank deposits	6,693	272	277		2,742	9,984
Other	26,589		128,810			155,399
Total revenues	<u>289,547</u>	<u>101,090</u>	<u>925,887</u>	<u>304,359</u>	<u>115,529</u>	<u>1,736,412</u>
EXPENDITURES						
General government	70,460					70,460
Fire	24,222					24,222
Police	87,390	100,000				187,390
Parks and recreation	22,127					22,127
Planning and development	4,871		721,932			726,803
Public works mechanical maintenance	81,653					81,653
Streets and sidewalks	31,634			296,798	84,777	413,209
Capital outlays					20,369	20,369
Debt service:						
Principal						-
Interest						-
Total expenditures	<u>322,357</u>	<u>100,000</u>	<u>721,932</u>	<u>296,798</u>	<u>105,146</u>	<u>1,546,233</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(32,810)</u>	<u>1,090</u>	<u>203,955</u>	<u>7,561</u>	<u>10,383</u>	<u>190,179</u>
OTHER FINANCING SOURCES AND (USES)						
Transfer (to) from other funds	-	-	-	(7,561)	7,561	-
Net change in fund balances	(32,810)	1,090	203,955	-	17,944	190,179
Fund balances - beginning of year	495,621	(1,698)	51,669	-	337,058	882,650
Fund balances - end of year	<u>\$ 462,811</u>	<u>\$ (608)</u>	<u>\$ 255,624</u>	<u>\$ -</u>	<u>\$ 355,002</u>	<u>\$ 1,072,829</u>

The accompanying notes are an integral part of the financial statements.

City of Dorris, California

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

Governmental Funds

For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$	190,179
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Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets
is depreciated over their estimated useful lives. This is the
amount by which capital outlay exceeded depreciation expense
for the current period.

Expenditures for capital assets	356,852
Less current year depreciation	<u>(62,599)</u>

Governmental funds report economic development block grant
and community development block grant loans as expenditures
when the loan is made and report the principal and interest payments
as revenue when received. However, in the statement of activities,
the loan is recorded as an asset which is reduced by the amount of
principal payment that is received during the year. The
statement of activities reports the interest revenue that is earned .
Loan discounts and losses are not cash outflows, accordingly the
discounts and losses are not reported on the governmental fund report.
However, loan discounts and losses are reported as program expenditures
on the statement of activities.

New loans made	429,900
Principal payments received	(61,704)
Loan discount	<u>(84,844)</u>

Change in net assets of governmental activities	\$	<u><u>767,784</u></u>
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CITY OF DORRIS, CALIFORNIA

Statement of Net Assets

Enterprise Funds

June 30, 2008

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
ASSETS			
Current:			
Cash	\$ 21	\$ 100,963	\$ 100,984
Trade Accounts Receivable, net	<u>6,506</u>	<u>2,406</u>	<u>8,912</u>
Total Current Assets	<u>6,527</u>	<u>103,369</u>	<u>109,896</u>
Noncurrent:			
Depreciable Capital Assets, net	<u>205,854</u>	<u>-</u>	<u>205,854</u>
Total Noncurrent Assets	<u>205,854</u>	<u>-</u>	<u>205,854</u>
Total Assets	<u>212,381</u>	<u>103,369</u>	<u>315,750</u>
LIABILITIES			
Current:			
Accounts Payable	<u>3,685</u>	<u>1,433</u>	<u>5,118</u>
Total Current Liabilities	<u>3,685</u>	<u>1,433</u>	<u>5,118</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	205,854	-	205,854
Unrestricted	<u>2,842</u>	<u>101,936</u>	<u>104,778</u>
Total Net Assets	<u>\$ 208,696</u>	<u>\$ 101,936</u>	<u>\$ 310,632</u>

See accompanying notes to the financial statements.

CITY OF DORRIS

Statement of Revenues, Expenses and Changes in Fund Net Assets

Enterprise Funds

For the year ended June 30, 2008

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
Operating revenues:			
User fees and charges	<u>\$ 183,931</u>	<u>\$ 66,604</u>	<u>\$ 250,535</u>
Operating expenses:			
Supplies	7,223	-	7,223
System maintenance	152,066	57,703	209,769
Utilities	26,198	3,846	30,044
Depreciation expense	13,494	51	13,545
Other	<u>1,045</u>	<u>429</u>	<u>1,474</u>
Total Operating Expenses	<u>200,026</u>	<u>62,029</u>	<u>262,055</u>
Operating Income (Loss)	(16,095)	4,575	(11,520)
Non operating revenues (expenses):			
Interest income	<u>-</u>	<u>603</u>	<u>603</u>
Change in Net Assets	(16,095)	5,178	(10,917)
Net Assets - Beginning of Year	<u>224,791</u>	<u>96,758</u>	<u>321,549</u>
Net Assets - End of Year	<u><u>\$ 208,696</u></u>	<u><u>\$ 101,936</u></u>	<u><u>\$ 310,632</u></u>

See accompanying notes to the financial statements.

CITY OF DORRIS

Statement of Cash Flows

Enterprise Funds

For the year ended June 30, 2008

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 185,410	\$ 67,004	\$ 252,414
Cash payments for operating expenses	<u>(190,456)</u>	<u>(62,215)</u>	<u>(252,671)</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(5,046)</u>	<u>4,789</u>	<u>(257)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>
NET CASH (USED) PROVIDED BY CAPITAL and RELATED FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest from bank account	<u>-</u>	<u>603</u>	<u>603</u>
NET INCREASE (DECREASE) IN CASH	(5,046)	5,392	346
CASH and CASH EQUIVALENTS - BEGINNING	<u>5,067</u>	<u>95,571</u>	<u>100,638</u>
CASH and CASH EQUIVALENTS - ENDING	<u>\$ 21</u>	<u>\$ 100,963</u>	<u>\$ 100,984</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (16,095)	\$ 4,575	\$ (11,520)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	13,494	51	13,545
(Increase) decrease in accounts receivable	1,479	400	1,879
Increase (Decrease) in accounts payable	<u>(3,924)</u>	<u>(237)</u>	<u>(4,161)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (5,046)</u>	<u>\$ 4,789</u>	<u>\$ (257)</u>

See accompanying notes to the financial statements.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applicable to state and local governments. The following is a summary of the significant accounting policies used by the City of Dorris, California.

A. Reporting Entity

The City of Dorris, California is legally incorporated under California municipal law, and is governed by a five member City Council. The City provides public safety (police and fire), streets and roads, water and sewer services, economic development, community development, parks and recreation, and general administrative services.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units in the reporting entity by applying the criteria set forth in generally accepted accounting principals. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency, other manifestations of the ability to exercise oversight governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City does not have any component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements where practicable. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, relating to compensated absences, and claims and judgments are recognized only when payment is due.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property taxes, state-shared revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City of Dorris, California reports the following major governmental funds:

General Fund – The general fund is the City’s primary operating fund. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Law Enforcement Services Fund – This fund is used to account for federal and state grants which must be spent for law enforcement (police) services.

Economic & Community Development Block Grant Fund – This fund is used to account for Economic Development Block Grants and Community Development Block Grants. These two programs are funded with federal grants. The Economic Development Block Grants must be spent for economic development within the City of Dorris, California. This fund is also used to account for loans which have been made in businesses for economic development within the City of Dorris, California. The Community Development Block Grants must be spent for residential housing and improvements within the City of Dorris, California. This fund is also used to account for loans which have been made to homeowners for construction and improvement of residential homes within the City of Dorris, California.

Street Enhancement Fund – This fund is used to account for STIP revenues received from the State of California for street improvements.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City of Dorris, California reports the following major proprietary funds:

The Water Fund – This fund is used to account for the distribution of water within the City of Dorris. User charges to customers based upon water consumption account for substantially all of the operating revenue of this fund.

The Sewer Fund – This fund is used to account for the transportation and treatment of waste water within the City of Dorris. User charges to customers account for substantially all of the operating revenue of this fund.

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund transfers between funds that if omitted, would distort the financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Investments

The City follows the practice of pooling cash resources, consisting of cash and investments, from all funds for the purpose of increasing income through investment activities. Interest earned on pooled cash resources is allocated among funds based on the individual funds computed average interest rate of all investments.

During fiscal year 2001-2002, the City adopted GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and For Investment Pools." Under GASB 31, investments are generally stated at fair value, rather than amortized cost, and the increase or decrease in fair value of investments is included as a component of income.

E. Taxes Receivable

Property Taxes – The County of Siskiyou assesses, bills and collects property taxes for the City. The property tax is levied each November 1 on the assessed valuation of property located in the County as of the preceding lien date. Taxes are receivable in two equal installments which become delinquent the first working day after December 10 and April 10. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Sales Tax – The State of California collects the City's portion (1%) of sales taxes collected from retail sales within the City. Sales tax receivable represents sales tax which is attributable to retail sales made before the end of the fiscal year but not yet remitted to the City.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	50 years
Land improvements	20 to 30 years
Equipment	7 years
Infrastructure	15 to 50 years
Water and sewer mains	50 years
Vehicles	3 to 7 years

G. Accrued Vacation Pay

It is the City's policy to permit employees to accumulate up to two weeks of earned but unused vacation pay benefits. Vacation pay and other earned but unpaid wages have been accrued in the government-wide and proprietary fund financial statements.

H. Long-term Debt

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. The face amount of debt issued is reported as other financing sources on the statement of revenues and expenditures while the amount outstanding is reported on the statement of net assets. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures. As of June 30, 2008 the City has no outstanding long-term debt.

I. Fund Equity

Fund Balances – In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Net Assets – In the government-wide financial statements, net assets are classified in the following categories:

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Fund Equity

Invested in capital assets, net of related debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors, laws, or regulation of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

J. Budgetary Data

The budget of the City is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget represents a process through which policy decisions are made, implemented and controlled.

The budget is adopted by the City Council each year. The City Manager is authorized to make transfers of excess appropriations within a department; however, any revisions that alter the total expenditures of any fund require City Council action. Expenditures may not legally exceed appropriations at the department level. Expending funds for which there is no legal appropriation is prohibited.

Budgetary data is presented in the required supplementary information section of the financial statements for the general fund and special revenue funds.

K. Use of Estimates

The preparation of basic financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund type considers all U.S. Treasury Bonds and highly liquid investments with a maturity of three months or less to be cash equivalents.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

2. CASH AND INVESTMENTS

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$1,280,144 at June 30, 2008. Bank balances before reconciling items were \$1,343,759 at that date. The total amount of which was collateralized or insured with securities held by the pledging financial institutions in the City's name is discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. This collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes that have a value of 150% to the City's total cash deposits. The City may waive collateral requirement for cash deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

The City follows the practice of pooling cash and investments for all funds, except for funds required to be held in separate accounts due to grant or bond agreements. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the various funds period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

- Securities of the U.S. Government or its agencies.
- Certificates of Deposit (or Timed Deposits) placed with commercial banks and/or savings and loan companies
- California Local Agency Investment Fund
- Investment-grade obligations of state, local government or public authorities.
- Passbook savings account and demand deposits.

As of June 30, 2008 all of the City's investments were in passbook savings accounts, certificates of deposits and demand deposits.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

2. CASH AND INVESTMENTS (continued)

C. Credit Risk

Governmental accounting Standards Board Statement No. 3 requires that deposits and investments be classified by credit risk.

Classifications of deposits and investments by credit risk are as follows:

Deposits:

Category 1 – Insured or collateralized with securities held by the City or its agent in the City's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 – Deposits which are uninsured or uncollateralized.

Investments:

Investments made by the city are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk within the following three categories:

Category 1 – Insured or registered, with securities held by the City or its agent in the City's name.

Category 2 – Uninsured and unregistered, with securities held by the counter party trust department of agent in the City's name.

Category 3 – Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the City's name.

	Category			Carrying Value
	1	2	3	
Demand deposits:				
Cash deposit	\$ 954,871			\$ 954,871
Certificate of deposit	325,273			325,273
	<u>\$ 1,280,144</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,280,144</u>

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

3

CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 consisted of the following:

	Primary Government		
	Balance July 1, 2007	Additions	Balance June 30, 2008
Governmental Activities:			
Capital assets, not being depreciated:			
Land and land improvements	\$ 710,165		\$ 710,165
Construction in progress - parks & rec.	\$ 68,902		\$ 68,902
Total capital assets not being depreciated	779,067	-	710,165
Capital assets, being depreciated:			
Buildings and structures	1,907,681	586	1,908,267
Machinery and equipment	111,491	39,686	151,177
Parks and recreation		88,685	88,685
Infrastructure:			
Signs and lights	227,152		227,152
Streets and Sidewalks	758,946	296,797	1,055,743
Total capital assets being depreciated	3,005,270	425,754	3,431,024
Accumulated depreciation	(747,603)	(62,599)	(810,202)
Total capital assets being depreciated, net	2,257,667	363,155	2,620,822
Governmental activities capital assets, net	\$ 3,036,734	\$ 363,155	\$ 3,330,987

Depreciation Expense by Function:

General government	\$ 445
Fire	18,429
Police	-
Planning and Development	-
Parks and recreation	6,901
Public works administration	-
Public works mechanical maintenance	3,972
Streets and sidewalks	32,852
Total	\$ 62,599

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

3

CAPITAL ASSETS (continued)

Capital assets activity for the year ended June 30, 2008 consisted of the following: (continued)

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the Government-wide Statement of Net Assets. All Capital assets including infrastructure systems were reported using the Basic Approach whereby accumulated depreciation and depreciation expense have been recorded.

Capital asset activity for individual enterprise funds is as follows:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
<u>Water system</u>				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:				
Buildings and structures	-			-
Machinery and equipment	-			-
Water system	873,862			873,862
Total capital assets being depreciated	873,862	-	-	873,862
Less accumulated depreciation:	(654,514)	(13,494)	-	(668,008)
Total capital assets being depreciated, net	219,348	(13,494)	-	205,854
Water system capital assets, net	\$ 219,348	\$ (13,494)	\$ -	\$ 205,854
	Balance			Balance
	July 1, 2007	Additions	Retirements	June 30, 2008
<u>Sewer system</u>				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital assets, being depreciated:				
Buildings and structures	-			-
Machinery and equipment	-			-
Sewer system	250,412			250,412
Total capital assets being depreciated	250,412	-	-	250,412
Less accumulated depreciation:	(250,361)	(51)	-	(250,412)
Total capital assets being depreciated, net	51	(51)	-	-
Sewer system capital assets, net	\$ 51	\$ (51)	\$ -	\$ -

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

4. RISK MANAGEMENT

The City participates in the following public entity risk pools:

The Small Cities Organized Risk Effort (S.C.O.R.E.) covers general liability claims in an amount up to \$500,000. The City has a deductible or uninsured liability of up to \$25,000 per claim. Once the City's deductible is met S.C.O.R.E. becomes responsible for payment of all claims up to the limit. During the fiscal year ended June 30, 2008 the City Contributed \$38,942 for current year coverage and received refunds of \$44,496 in prior year excess contributions

The Small Cities Organized Risk Effort (S.C.O.R.E.) covers workers' compensation claims up to the statutory limit. The City has no deductible for these claims. The premium for this coverage is included with the annual payments made to S.C.O.R.E.

The California Joint Risk Management Authority covers general liability claims that exceed S.C.O.R.E. coverage up to a maximum of \$5,000,000. The premium for this coverage is included with the annual payments made to S.C.O.R.E.

Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

There have been no significant reductions of coverage or insurance settlements that exceeded insurance coverage for the past three years.

S.C.O.R.E. is governed by a board consisting of representatives from member municipalities. The board controls the operations of the risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

CITY OF DORRIS, CALIFORNIA

Notes to the Financial Statements

June 30, 2008

4. RISK MANAGEMENT (continued)

Audited financial information for each risk pool may be obtained from S.C.O.R.E. at:

S.C.O.R.E.
C/O Alliant Insurance Services, Inc.
1792 Tribute Road, Suite 450
Sacramento, CA 95815

5. NET ASSETS

As of June 30, 2008 investment in capital assets, net of related debt consisted of the following:

	Governmental Activities	Business-type Activities	Totals
Land, Buildings & Equipment	\$ 4,141,189	\$ 1,124,273	\$ 5,265,462
Less accumulated depreciation	(810,202)	(918,419)	(1,728,621)
Total Capital Assets	3,330,987	205,854	3,536,841
Related long-term debt	-	-	-
Investment in capital assets, net of related debt per statement of net assets	<u>\$ 3,330,987</u>	<u>\$ 205,854</u>	<u>\$ 3,536,841</u>

6. INTERFUND ASSETS AND LIABILITIES

Interfund assets and liabilities consisted of the following on June 30, 2008.

Fund	Due From Asset	Due To Liability
Other governmental funds	\$ 4,068	
Law Enforcement Services		\$ 4,068
Totals	<u>\$ 4,068</u>	<u>4,068</u>

The interfund assets and liabilities will be closed out in the next fiscal year with interfund transfers.

CITY OF DORRIS, CALIFORNIA
Notes to the Financial Statements
June 30, 2008

7. INTERFUND TRANSFERS IN (OUT)

Interfund transfers consisted of the following for the year ended June 30, 2008.

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
Street enhancement fund	\$ 7,561	
Other governmental funds	<u> </u>	\$ 7,561
Totals	<u>\$ 7,561</u>	<u>\$ 7,561</u>

8. LOANS RECEIVABLE

The City has the following loans receivable as of June 30, 2008:

Economic Development Block Grant	\$1,518,346
Community Development Block Grant	<u>3,232,765</u>
Total	<u>\$4,751,111</u>

The City administers an economic development loan program using Economic Development Act funds. Businesses meeting the programs requirements are eligible to receive low interest loans, secured by deeds of trust, for the creation or expansion of their business.

At June 30, 2008 the City economic development loan program had outstanding loans of \$1,518,346 with no allowance for uncollectible accounts. During the year ended June 30, 2008 the City received \$22,443 in principal repayments from the program participants and loaned \$75,252 to program participants.

The City administers a community development loan program using Community Development Act funds. Homeowners meeting the programs requirements are eligible to receive low interest loans, secured by deeds of trust, for the cost of making improvements to their homes.

At June 30, 2008 the City's community development loan program had outstanding loans of \$3,232,765 with no allowance for doubtful accounts. During the year ended June 30, 2008 the City received \$39,261 in principal repayment from the program participants and loaned \$354,648 to program participants.

CITY OF DORRIS, CALIFORNIA
Notes to the Financial Statements
June 30, 2008

8. LOANS RECEIVABLE (continued)

In the governmental fund financial statements, these loans are reported as expenditures when disbursed and as revenues when repaid. Loans receivable are offset by deferred revenue as they are not expected to be repaid immediately.

9. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION

- A. The City participates in a number of Federal and State assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs, including those for the year ended June 30, 2008 have not yet been conducted.

Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. Management believes that such disallowances, if any, would not have a material effect on the financial statement.

- B. The City is subject to various disputes, legal proceedings and labor relation claims which arise in the normal course of its operations. The City management is of the opinion that the ultimate disposition of the various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

SUPPLEMENTARY INFORMATION

CITY OF DORRIS, CALIFORNIA

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

General Fund

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Property taxes	\$ 87,000	\$ 87,000	\$ 82,366
Sales taxes	23,000	23,000	26,918
Transient lodging taxes	6,500	6,500	6,377
Franchise fees	7,550	7,550	8,273
Licenses and permits	8,775	8,775	13,902
Charges for services	28,100	28,100	31,229
Fines and forfeitures	6,500	6,500	4,465
Intergovernmental	82,200	82,200	77,735
Grants and donations	5,000	107,800	5,000
Interest income on bank deposits	1,800	1,800	6,693
Other	104,400	29,700	26,589
Total revenues	<u>360,825</u>	<u>388,925</u>	<u>289,547</u>
EXPENDITURES			
General government	72,911	72,911	70,460
Fire	24,490	24,490	24,222
Police	77,667	98,019	87,390
Parks and recreation	90,400	90,400	22,127
Planning and development	5,120	5,120	4,871
Public works mechanical maintenance	41,418	81,104	81,653
Streets and sidewalks	26,741	40,051	31,634
Total expenditures	<u>338,747</u>	<u>412,095</u>	<u>322,357</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,078</u>	<u>(23,170)</u>	<u>(32,810)</u>
OTHER FINANCING SOURCES AND (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	22,078	(23,170)	(32,810)
Fund balances - beginning of year	495,621	495,621	495,621
Fund balances - end of year	<u>\$ 517,699</u>	<u>\$ 472,451</u>	<u>\$ 462,811</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DORRIS, CALIFORNIA

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Law Enforcement Services

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Grants and donations	\$ 100,000	\$ 100,000	\$ 100,818
Interest income on bank deposits	100	100	272
Total revenues	<u>100,100</u>	<u>100,100</u>	<u>101,090</u>
EXPENDITURES			
Police	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>100</u>	<u>100</u>	<u>1,090</u>
OTHER FINANCING SOURCES AND (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	100	100	1,090
Fund balances - beginning of year	<u>(1,698)</u>	<u>(1,698)</u>	<u>(1,698)</u>
Fund balances - end of year	<u>\$ (1,598)</u>	<u>\$ (1,598)</u>	<u>\$ (608)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DORRIS, CALIFORNIA

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Economic & Community Development Block Grant

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Grants and donations	\$ 1,200,000	\$ 1,200,000	\$ 796,800
Interest income on bank deposits	850	850	277
Other	195,300	195,300	128,810
Total revenues	<u>1,396,150</u>	<u>1,396,150</u>	<u>925,887</u>
EXPENDITURES			
Planning and development	<u>1,466,146</u>	<u>1,466,146</u>	<u>721,932</u>
Total expenditures	<u>1,466,146</u>	<u>1,466,146</u>	<u>721,932</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(69,996)</u>	<u>(69,996)</u>	<u>203,955</u>
OTHER FINANCING SOURCES AND (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(69,996)	(69,996)	203,955
Fund balances - beginning of year	<u>51,669</u>	<u>51,669</u>	<u>51,669</u>
Fund balances - end of year	<u>\$ (18,327)</u>	<u>\$ (18,327)</u>	<u>\$ 255,624</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DORRIS, CALIFORNIA

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Street Enhancement

For the Year Ended June 30, 2008

	Budgeted Amounts		Actual
	Original	Final	Amounts
REVENUES			
Grants and donations	\$ 400,000	\$ 400,000	\$ 304,359
Total revenues	<u>400,000</u>	<u>400,000</u>	<u>304,359</u>
EXPENDITURES			
Streets and sidewalks	400,000	400,000	296,798
Total expenditures	<u>400,000</u>	<u>400,000</u>	<u>296,798</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>7,561</u>
OTHER FINANCING SOURCES AND (USES)			
Operating transfers in	-	-	-
Operating transfers out	-	(7,561)	(7,561)
Total other financing sources and (uses)	<u>-</u>	<u>(7,561)</u>	<u>(7,561)</u>
Net change in fund balances	-	(7,561)	-
Fund balances - beginning of year	-	-	-
Fund balances - end of year	<u>\$ -</u>	<u>\$ (7,561)</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

City of Dorris, California

Notes to Required Supplementary Information June 30, 2008

Budgets and Budgetary Accounting

As required by the laws of the State of California, the City prepares and legally adopts a final balanced operating budget that may include appropriations of undesignated reserves. At least one public hearing is conducted to obtain comments on the proposed final budget and to review all appropriations and the sources of financing.

Budgets for the general and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States, utilizing the modified accrual basis of accounting and are presented accordingly in the financial statements. Budgets for the proprietary funds are adopted under accounting principles generally accepted in the United States; however, budgets for the proprietary funds, though not considered legally adopted budgets, are used for management and control purposes.

At the fund level, actual expenditures cannot exceed budgeted appropriations. In order to accommodate operational changes that may result during the course of a budget year, the City Council may authorize supplemental appropriations during the year by budget modification resolution. Management can modify line items of a budget, with the limitation that the overall departmental budget may not be exceeded without Council approval.

The budgetary data presented in the accompanying financial statements includes all revisions approved by the City Council.

City of Dorris

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Pass-through program from State of California Department of Housing and Community Development		18954	
Community Development Block Grant	14.228		\$ 539,561
Economic Development Block Grant 924	14.228		68,652
Federal Emergency Management Agency (FEMA) passed thru Governor's Office of Emergency Services			
Disaster Grants - Presidentially Declared Disasters	97.036	093-86944	<u>66,813</u>
Total Expenditures of Federal Awards			<u>\$ 675,026</u>

See accompanying notes to schedule of federal awards.

CITY OF DORRIS, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2008

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Dorris, California and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF DORRIS, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

SUMMARY OF AUDIT RESULTS

1. The auditors report expresses an unqualified opinion on the general purpose financial statements of the City of Dorris, California.
2. There were no reportable conditions disclosed during the audit of the general purpose financial statements
3. No instances of noncompliance material to the general purpose financial statements of the City of Dorris, California were disclosed during the audit.
4. The auditors report on compliance for the major federal award program for City of Dorris expresses an unqualified opinion.
5. The programs tested as major programs were the Economic Development Block Grant and Community Development Block Grant.
6. The Community Development Block Grant was considered to be a Type A program. The dollar threshold for distinguishing between Type A and B programs was \$300,000.
7. The Economic Development Block Grant and Federal Emergency Management Agency (FEMA) grant were considered to be a Type B programs.
8. City of Dorris, California was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

We noted no findings during the financial statement audit.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

COMMUNITY DEVELOPMENT BLOCK GRANT

We noted no findings during the audit of the Major Federal Award Programs.

QUESTIONED COSTS

None.



REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the City Council
City of Dorris
Dorris, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Dorris, California as of and for the year ended June 30, 2008, which collectively comprise the City of Dorris's basic financial statements and have issued our report thereon dated June 28, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dorris's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Dorris's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Pavlik & Chitwood", with a long horizontal flourish extending to the right.

Pavlik & Chitwood, LLP
Certified Public Accountants
June 28, 2010



REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
City of Dorris
Dorris, California

Compliance

We have audited the compliance of City of Dorris, California, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. City of Dorris California major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Dorris, California's management. Our responsibility is to express an opinion on City of Dorris's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Dorris, California's compliance with those requirements and performing such other procedures as we Considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Dorris, California's compliance with those requirements.

In our opinion, City of Dorris, California, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of City of Dorris, California, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Dorris, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Dorris, California's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Pavlik & Chitwood", with a stylized flourish at the end.

Pavlik & Chitwood, LLP
Certified Public Accountants
June 28, 2010